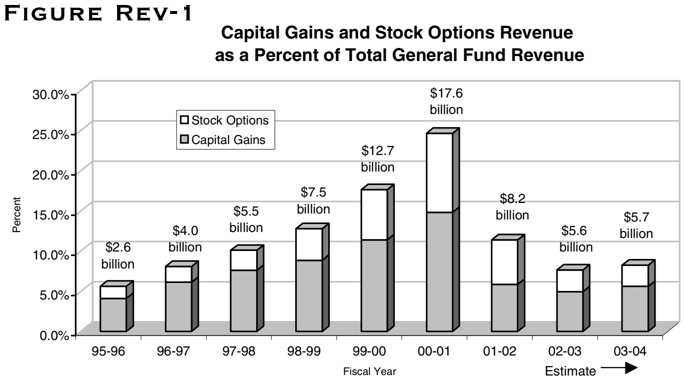
Revenue Estimates

Because the anticipated recovery of the U.S. and California economies has not yet materialized, the decline in the State's revenues was more pronounced than what was expected at the time the 2002-03 May Revision was prepared. Since enactment of the 2002 Budget Act, the General Fund revenue forecast for major taxes and licenses has decreased by $7.7 billion for the past and current years combined. In addition, a decline of 5.5 percent in revenues, or $4 billion, to $69.2 billion is expected for 2003-04. The decline is mainly due to weak personal income tax revenues, which dropped by nearly 26 percent in 2001-02 and are expected to decline another 0.5 percent in 2002-03. When the three years are compared to the estimates made last May without the revenue measures proposed in the Governor's Budget, the three-year drop amounts to $17.7 billion.

As has been noted during the past year, the State's remarkable revenue growth in recent years was driven by stock market related gains, while the current fall-off largely reflects the market's decline. Figure REV-1 shows the portion of General Fund revenues from market-related income.

Figure Rev-1



Note: An assumed tax rate of 9 percent was used to calculate the tax revenue from capital gains and stock options.

By 2003-04, tax relief from the federal phase-out of the estate tax, vehicle license fee reductions, and measures enacted under this Administration will reach $4.2 billion. For the period 1999-00 through 2003-04, these measures will have provided $15.8 billion in taxpayer benefits. The Governor's Budget addresses a $34.6 billion shortfall without scaling back any of these significant savings to taxpayers. However, as noted in the Preserving Critical

FIGURE REV-2

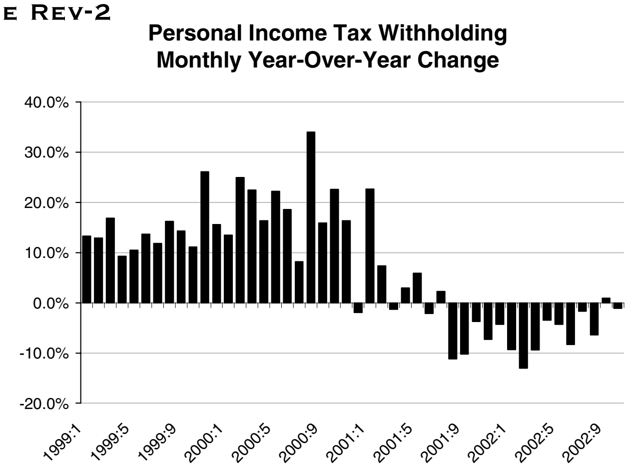


FIGURE REV-3

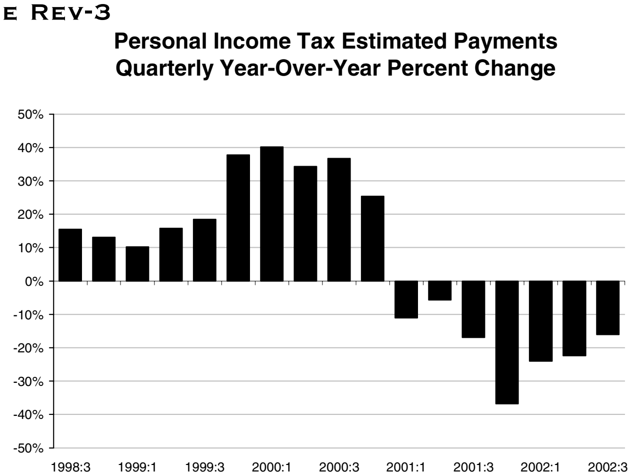
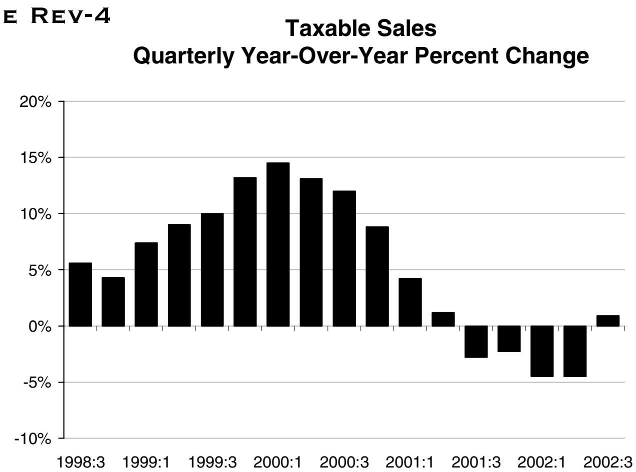


FIGURE REV-4



Programs section, the Governor's Budget includes several revenue proposals to fund programs that are proposed to be shifted to local governments. These revenue proposals include the following: adding 10 percent and 11 percent personal income tax brackets on high income earners, increasing the tobacco excise tax by $1.10 per pack of cigarettes, and increasing the sales tax rate by one cent.

As can be seen in Figures REV-2, REV-3, and REV-4, revenues began to weaken beginning early in 2001. Year-over-year losses in personal income tax withholding are believed to be attributable primarily to the loss of stock option income, which plunged with the slowing economy and the market's retreat. Taxpayers are also anticipating less non-wage income—primarily capital gains—which has eroded estimated payment receipts. Similarly, consumers have cut back, resulting in a deterioration in purchases of taxable goods. This softness in revenues is expected to continue until mid-2003, when modest growth is expected to resume.

The Governor's Budget and revenue forecast also reflect the following proposals:

- **Regulated Investment Companies—** The Governor's Budget proposes to prevent banks from utilizing Regulated Investment Companies to avoid California tax by improperly sheltering income. The proposal would be implemented prospectively, and is estimated to increase revenues by $45 million in 2003-04, and $55 million in 2004-05.

- **Corporation Tax Subpart F Income Exclusion—**The Governor's Budget proposes to clarify that existing law does not allow certain corporations to exclude a portion of their income, called

Subpart F income, from a water's edge combined report. The Budget also proposes to conform to federal law in the coordination of Subpart F income and U.S.-source income. Because these proposals would clarify existing law, they will have no effect on revenues. However, these changes will close potential tax loopholes.

- **Manufacturers' Investment Credit (MIC) Clarification—**The Governor's Budget proposes clarifying that the MIC is intended to apply to manufacturing activities as specified in the Standard Industrial Code. This proposal would increase revenues by an estimated $50 million in 2003-04 and $50 million in 2004-05.

- **Extension of the Sunset Provision for the Manufacturers' Investment Credit (MIC)—**Based on the Governor's Budget economic forecast, decreases in manufacturing employment are expected to cause the MIC to sunset on January 1, 2004. Chapter 751, Statutes of 1994, which established the MIC to create manufacturing jobs, provided that the credit would sunset if manufacturing employment does not exceed a specified level. Although under current law the MIC would sunset, the Governor's Budget proposes to extend the sunset date and revise the manufacturing employment threshold provision in order to continue this credit. From January 1994 through January 2001, manufacturing jobs grew more quickly in California than in the nation.

Figure Rev-5

General Fund Revenue
(Dollars in Millions)

	2001-02 Preliminary	2002-03 Forecast	2003-04 Forecast
Personal income tax	$33,047	$32,880	$33,610
Sales and use tax	21,355	22,349	23,210
Corporation tax	5,333	6,452	6,361
All other	12,504	11,463	5,972
Total revenues and transfers	**$72,239**	**$73,144**	**$69,153**
Annual percent change	**1.1%**	**1.3%**	**-5.5%**

Figure Rev-6

2002-03 Revenue Measures
Summary of Fiscal Impact
(Dollars in Millions)

Chapter/Bill Number	Description	Fiscal Impact 2002-03	2003-04	2004-05
Chapter 488/AB 2065	Two-year suspension of net operating loss provisions	$925.0	$600.0	-$325.0
Chapter 488/AB 2065	Conformity with federal law regarding accounting for bad debt reserves	285.0	15.0	0.0
Chapter 488/AB 2065	Increasing the rate of withholding on stock options and bonus income	200.0	10.0	10.0
Chapter 488/AB 2065	One-year suspension of the teacher retention tax credit	170.0	0.0	0.0
Chapter 488/AB 2066	Waiver of penalties and interest on high-risk accounts	145.0	0.0	0.0
Chapter 488/AB 2067	Withholding on real estate sales	195.0	10.0	10.0
Various	Other (includes collection activities, tax credit auditing, etc.)	212.0	217.0	194.0
	Total	**$1,920.0**	**$852.0**	**-$111.0**

> Although beginning in January 2001, California manufacturing jobs declined at a faster rate than the U.S., California is still performing better than the nation as a whole with respect to manufacturing jobs and the MIC is believed to have been an important factor in assisting that performance.

Figure REV-5 provides a summary of the revenue forecast for 2002-03 and 2003-04, as well as a preliminary report of actual receipts for 2001-02.

2002 Revenue Provisions

Last year, several revenue generating provisions were enacted including a two-year suspension of net operating loss provisions, conformity with federal law regarding accounting for bad debt reserves, increasing the rate of withholding on stock options and bonus income, imposing withholding on the sale of specified real estate sales, suspending for one year the teacher retention and natural heritage preservation tax credits, and various other tax compliance provisions. Figure REV-6 provides additional detail on these measures. The Governor's Budget proposes legislation that would mitigate the burden of the real estate withholding provision on individuals whose ultimate tax liability is less than the amount that would be withheld under current law.

Revenues in Total

Overall, General Fund revenues and transfers represent 72 percent of total revenues. The remaining 28 percent are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales, and corporation taxes) account for about 66 percent of total revenues.

Personal Income Tax: $33.610 billion

The personal income tax, the State's largest revenue source, is expected to contribute 49 percent of all General Fund revenues and transfers in 2003-04. Personal income tax revenues are forecast to decline by 0.5 percent in 2002-03 and then increase by 2.2 percent in 2003-04; this follows an unprecedented decline of almost 26 percent in 2001-02. The estimate incorporates the effect of the Administration's proposal to modify the withholding requirement for resident real estate transactions.

The California personal income tax is closely modeled after the federal income tax law. California's tax is imposed on net taxable income—that is, gross income less exclusions and deductions. The tax is progressive, with rates ranging from 1 percent to 9.3 percent. Personal, dependent, and other credits are allowed against the gross tax liability.

In addition, taxpayers may be subject to an alternative minimum tax (AMT), which is much like the federal AMT. This feature is designed to ensure that excessive use of tax preferences does not reduce taxpayers' liabilities below a minimum level. The AMT is equal to 7 percent of the alternative minimum taxable income that exceeds an exemption amount.

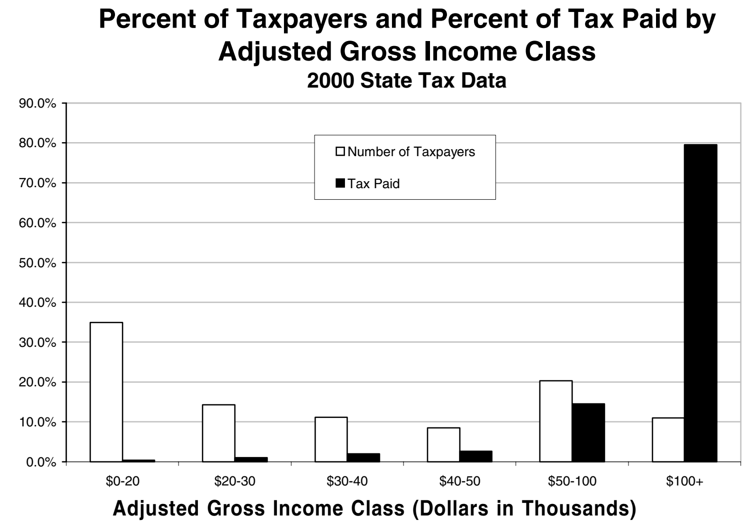
The personal income tax is adjusted annually by the change in the California Consumer Price Index to prevent taxpayers from being pushed into higher tax brackets by inflation only, without a real increase in income.

The challenge in forecasting personal income tax receipts is increased by the progressive nature of the tax. One dollar of income on a high-income tax return can generate nine times the revenue from a dollar on a low-income return. In addition, very high-income taxpayers usually have considerable discretion over the timing of income and deductions. Thus, substantial changes in the portfolios or tax planning of relatively few high-income taxpayers can have a dramatic effect on State revenues.

In the 2000 tax year, the top 11 percent of State taxpayers—those with adjusted gross incomes of over $100,000—reported 53.7 percent of the total income and paid 79.5 percent of the personal income tax. In contrast, lower income taxpayers—those with adjusted gross incomes of less than $20,000—reported 5.2 percent of the total income and paid only 0.4 percent of the personal income tax, yet represented 34.9 percent of all California taxpayers. This information is displayed in Figure REV-7. Data for 2001 will be available in the spring.

The volatility inherent in the stock market and thus in capital gains has always complicated personal income tax revenue forecasting. Gains from stocks and securities comprise the majority of capital gains realizations, and taxes from this component of income had an increasing influence on personal income tax revenues in the latter half of the 1990s when, year after year, the stock market reached record-breaking levels. In addition, stock options, which are also related to stock market performance,

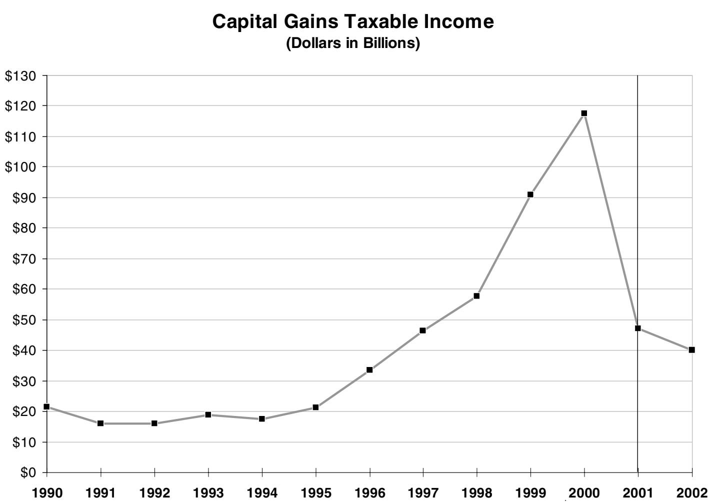
FIGURE REV-7



became an increasingly common component of wage packages during the market's high growth years. In 2000-01, the contribution to total General Fund revenues from these two revenue sources had grown to 25 percent from 6 percent five years earlier. It was clear that phenomenal gains in stock prices that boosted revenues to double-digit growth over the past few years could not continue indefinitely and that revenues were increasingly vulnerable to a market turnaround. What was not clear, however, was when that turnaround would come or how steep it would be. This forecast estimates that capital gains and stock options accounted for roughly 11 percent in 2001-02, and will account for about 8 percent in 2002-03 and in 2003-04.

Preliminary data indicate that capital gains dropped in 2001 by roughly 60 percent from about $118 billion in 2000, which was almost seven times the level in 1994. Capital gains are estimated to have declined by 15 percent in 2002, and the forecast

FIGURE REV-8



projects a modest increase of 7 percent in 2003. The level of capital gains from 1990 through 2002 is shown in Figure REV-8. Aside from the assumptions regarding stock market performance, another key factor underlying this forecast is the expectation that the general economy, which has been sluggish, will not begin to rebound until the second half of 2003.

In 1994, the year before the stock market began its nearly vertical climb that would last until the spring of 2000, total adjusted gross income (AGI) of taxable returns grew by 2 percent. AGI in the under $100,000 AGI brackets grew by 0.5 percent, however, while the over $100,000 AGI group realized an increase of 5.5 percent. These growth rates between the over and under $100,000 AGI groups diverged drastically in 1995 to minus 0.8 percent in the under $100,000 group and 22.4 percent in the over $100,000 group. Overall, total AGI growth in 1995 was 6.3 percent. This pattern of modest growth versus exceptional growth between the two groups continued through 2000, the last year of strong capital gains growth, when AGI grew by 27 percent in the over $100,000 group and by about 3.5 percent for those with incomes under $100,000. Preliminary data for the 2001 tax year, along with the weakness seen in the tax receipts for the 2001 tax year, indicate that the pattern of divergence in the growth rates is beginning to reverse. The Budget forecast assumes that total AGI declined by about 8.5 percent in 2001, with the over $100,000 group accounting for the bulk of the loss. Growth rates from 1994 through 2001 are displayed in Figure REV-9.

As noted in the Preserving Critical Programs section, several revenue proposals are included in the Governor's Budget to fund programs that are proposed to be shifted to local governments.

Adding the 10 percent and 11 percent rates is expected to provide $2.58 billion in revenues to local governments in 2003-04.

FIGURE REV-9

Adjusted Gross Income (AGI): Resident Taxable Returns
Annual Growth Rate

Tax Year	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
AGI Groups under $100,000	0.5%	-0.8%	2.1%	5.5%	-4.7%	3.9%	3.4%	-1.3%
AGI Groups $100,000 and above	5.5%	22.4%	19.9%	22.6%	17.4%	30.5%	26.9%	-13.5%
Total AGI	2.0%	6.3%	8.4%	12.2%	4.7%	16.6%	16.0%	-8.4%

FIGURE REV-10

State and Local Sales and Use Tax Rates

State Rates		
General Fund	4.75% or 5.00%	Pursuant to Sections 6051.3 and 6051.4 of the Revenue and Taxation Code, this rate is 5%, but may be temporarily reduced by 0.25% if General Fund reserves exceed specified levels. During 2001, the rate was 4.75%, and during 2002, this rate is 5.00%.
Local Revenue Fund	0.50%	Dedicated to local governments to fund health and social services programs transferred to counties as part of 1991 State-local realignment.
Local Uniform Rates[1]		
Bradley-Burns	1.00%	Imposed by city and county ordinance for general purpose use.[2]
Transportation Rate	0.25%	Dedicated for county transportation purposes.
Local Public Safety Fund	0.50%	Dedicated to counties for public safety purposes. This rate was imposed temporarily by statute in 1993 and made permanent by the voters later that year through passage of Proposition 172.
Local Add-on Rates[3]		
Transactions and Use Taxes	up to 1.50%	May be levied in 0.25% increments up to a combined maximum of 1.5% in any county.[4] Any ordinance authorizing a transactions and use tax requires approval by the county Board of Supervisors or special purpose authority created by the county Board of Supervisors plus two-thirds of the voters.

[1] These locally-imposed taxes are collected by the State for each city and county and are not included in the State's revenue totals.

[2] The city tax constitutes a credit against the county tax. The combined rate is never more than 1 percent in any area.

[3] These taxes may be imposed by voters in cities, counties, or special districts. The revenues are collected by the State for each jurisdiction and are not included in the State's revenue totals.

[4] The three exceptions to the 1.5 percent maximum are San Mateo County and San Francisco City and County, which may exceed the limit by 0.5 percent and 0.25 percent, respectively, and San Diego County, which is subject to a 1 percent maximum. Fresno, Nevada, Solano, and Stanislaus may levy transactions and use taxes in increments of 0.125 percent. To date, 38 counties and countywide special districts levy transactions and use taxes. Seven cities also impose transactions and use taxes on less than a countywide basis.

Personal income tax revenues forecasted for 2002-03 and 2003-04, as compared with preliminary 2001-02 collections, are as follows:

Personal Income Tax Revenue

(Dollars in millions)

2001-02 (Preliminary)	$33,047
2002-03 (Forecast)	32,880
2003-04 (Forecast)	33,610

Sales Tax: $23.210 billion

Receipts from sales and use taxes—the State's second largest revenue source—are expected to contribute 34 percent of all General Fund revenues in 2003-04. Sales and use taxes are imposed on the retail sale or use of tangible personal property in California. Most retail sales and leases are subject to the tax. However, exemptions are provided for certain necessities such as food for home consumption, prescription drugs,

FIGURE REV-11

Combined State and Local Sales and Use Tax Rates by County

(Rates in Effect on January 1, 2003)

County	Tax Rate	County	Tax Rate	County	Tax Rate
Alameda	8.25%	Madera	7.75%	San Joaquin	7.75%
Alpine	7.25%	Marin	7.25%	San Luis Obispo	7.25%
Amador	7.25%	Mariposa	7.75%	San Mateo	8.25%
Butte	7.25%	Mendocino	7.25%	Santa Barbara	7.75%
Calaveras	7.25%	Merced	7.25%	Santa Clara	8.25%
Colusa	7.25%	Modoc	7.25%	Santa Cruz	8.00%
Contra Costa	8.25%	Mono	7.25%	Shasta	7.25%
Del Norte	7.25%	Monterey	7.25%	Sierra	7.25%
El Dorado [1/]	7.25%	Napa	7.75%	Siskiyou	7.25%
Fresno [2/]	7.875%	Nevada [6/]	7.375%	Solano	7.375%
Glenn	7.25%	Orange	7.75%	Sonoma	7.50%
Humboldt	7.25%	Placer	7.25%	Stanislaus	7.375%
Imperial [3/]	7.75%	Plumas	7.25%	Sutter	7.25%
Inyo	7.75%	Riverside	7.75%	Tehama	7.25%
Kern	7.25%	Sacramento	7.75%	Trinity	7.25%
Kings	7.25%	San Benito	7.25%	Tulare	7.25%
Lake [4/]	7.25%	San Bernardino	7.75%	Tuolumne	7.25%
Lassen	7.25%	San Diego	7.75%	Ventura	7.25%
Los Angeles [5/]	8.25%	San Francisco	8.50%	Yolo [7/]	7.25%
				Yuba	7.25%

[1/] 7.50% for sales in the City of Placerville (City of Placerville Public Safety Transactions and Use Tax).

[2/] 8.175% for sales in the City of Clovis (City of Clovis Public Safety Transactions and Use Tax)

[3/] 8.25% for sales in the City of Calexico (Calexico Heffernan Memorial Hospital District).

[4/] 7.75% for sales in the City of Clearlake (City of Clearlake Public Safety Transactions and Use Tax).

[5/] 8.75% for sales in the City of Avalon (Avalon Municipal Hospital and Clinic Transactions and Use Tax)

[6/] 7.875% for sales in the Town of Truckee (Town of Truckee Road Maintenance Transactions and Use Tax)

[7/] 7.75% for sales in the City of Woodland (City of Woodland General Revenue Transactions and Use Tax)

and electricity, making the tax more progressive than it would be otherwise. Additional exemptions provide targeted tax relief for a variety of sales ranging from custom computer programs to goods used in space flight.

A summary of the sales and use tax rates currently imposed at the State and local levels is presented in Figure REV-10. Combined State and local tax rates currently imposed in each county are summarized in Figure REV-11.

Taxable sales in 2001 declined by 0.1 percent over 2000, following year-over-year increases of 10.0 percent and 11.9 percent in 1999 and 2000, respectively. Preliminary data received for the first three quarters of 2002 suggest that taxable sales have slowed significantly: sales for 2002 are expected to be down by 2.2 percent compared to 2001.

Taxable sales are expected to resume growing during 2003, but at a modest pace—up 3.4 percent—due to a continued sluggish economy during the first half of the year. In 2004, the rate of increase is expected to accelerate to 5.6 percent, consistent with economic growth. The 2003 forecast predicts a slight decline in transportation and modest growth in manufacturing, services, fuel, and other retail components. In 2004, broadly based gains are expected in taxable sales across many sectors of the economy.

A summary of the forecast for taxable sales growth is presented in Figure REV-12. Details for 2001 sales by major component are presented in Figure REV-13.

FIGURE REV-12

Taxable Sales Growth in California

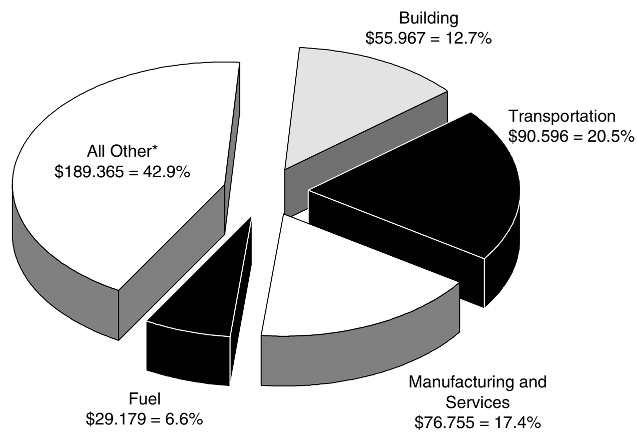
(Percent Change)

	2001 Actual	2002 Forecast	2003 Forecast	2004 Forecast
Transportation	5.5%	-3.6%	-0.5%	5.3%
Fuel	-2.5%	-9.9%	4.9%	4.4%
Building Materials	3.4%	-2.0%	4.3%	5.6%
Manufacturing and Services	-6.9%	-2.3%	4.2%	6.6%
All Other Retail Sales	-0.3%	-0.2%	4.3%	5.6%
Total Taxable Sales	**-0.1%**	**-2.2%**	**3.4%**	**5.6%**

FIGURE REV-13

2001 Taxable Sales by Major Components

(Dollars in Billions)



* Includes apparel, general merchandise, specialty goods, eating and drinking establishments, and agricultural goods.

The sales and use tax revenue forecast is prepared by relating taxable sales by type of goods purchased to economic factors such as income, employment, housing starts, new vehicle sales, and inflation. The forecast is then adjusted for significant legislation and other factors expected to affect sales tax revenues.

Effective January 1, 2002, the State sales tax rate returned to 5 percent after having fallen to 4.75 percent during the 2001 calendar year. This rate change was a result of a provision enacted in the early 1990s (Chapter 119, Statutes of 1991) that triggered a quarter-cent reduction in the tax rate if the State reserve exceeded 4 percent of General Fund revenues and transfers, during a two fiscal year period. This trigger formula was amended as part of the 2001 Budget Act (Chapter 156, Statutes of 2001) to require that the surplus exceed revenues by only 3 percent for a single year in order to activate the sales tax rate reduction. Consistent with what was assumed when the

2001 Budget Act was reached, the reserve level was not sufficient to trigger an additional year of reduction for 2003.

Current law specifies that certain State revenues from the sales tax on gasoline and diesel fuel sales be transferred to the Public Transportation Account. The combined transfer to this account is estimated to be $192 million in 2002-03 and $201 million in 2003-04. This money is excluded from General Fund totals.

Chapter 91, Statutes of 2000, created the Traffic Congestion Relief Fund. During 2000-01, $500 million was transferred from the Retail Sales Tax Fund to this new fund from the sales tax on gasoline. Chapter 91 also required that for each quarter during the period commencing on July 1, 2001, and ending on June 30, 2006, the General Fund sales tax revenue from gasoline be transferred to the Transportation Investment Fund (TIF), with a portion of this transferred to the Traffic Congestion Relief Fund. Chapter 113, Statutes of 2001, delayed the implementation of this provision until July 1, 2003, but also added two years to the end of the Traffic Congestion Relief Program by extending the transfer of the sales tax on gasoline for two years. Proposition 42, passed by voters in March 2002, amended the California Constitution to permanently dedicate the sales taxes on gasoline to transportation purposes beginning in 2003-04. The proposition included a provision that allows the Administration and the Legislature to suspend the sales tax transfer in a fiscal year if the transfer would result in a significant negative fiscal impact on the range of functions of government funded by the General Fund. Due to continued weakness in General Fund revenue, the Administration's Mid-Year Spending Reduction Proposals released in December 2002 include a suspension of the 2003-04 General Fund transfer to the TIF. This proposal will provide over $1 billion in General Fund relief.

As noted in the Preserving Critical Programs section, one of the revenue proposals included in the Governor's Budget to fund programs that are proposed to be shifted to local governments is a one cent increase in the sales tax rate. The sales tax portion of realignment is expected to provide $4.584 billion in revenues to local governments in 2003-04.

Revenues from State-imposed sales tax rates are shown in Figure REV-14. The following table shows the General Fund sales tax revenue forecast for 2002-03 and 2003-04, compared with preliminary 2001-02 collections:

Sales and Use Tax Revenue

(Dollars in millions)

2001-02 (Preliminary)	$21,355
2002-03 (Forecast)	22,349
2003-04 (Forecast)	23,210

FIGURE REV-14

Sales Tax Revenue
(Dollars in Thousands)

	2001-02 Preliminary	2002-03 Forecast	2003-04 Forecast
General Fund	$21,355,315	$22,349,000	$23,210,000
Sales and Use Tax—Local Revenue Fund	2,228,978	2,191,400	2,303,100
Public Transportation Account	232,113	191,849	200,754
Total	**$23,816,406**	**$24,732,249**	**$25,713,854**

Corporation Tax: $6.361 billion

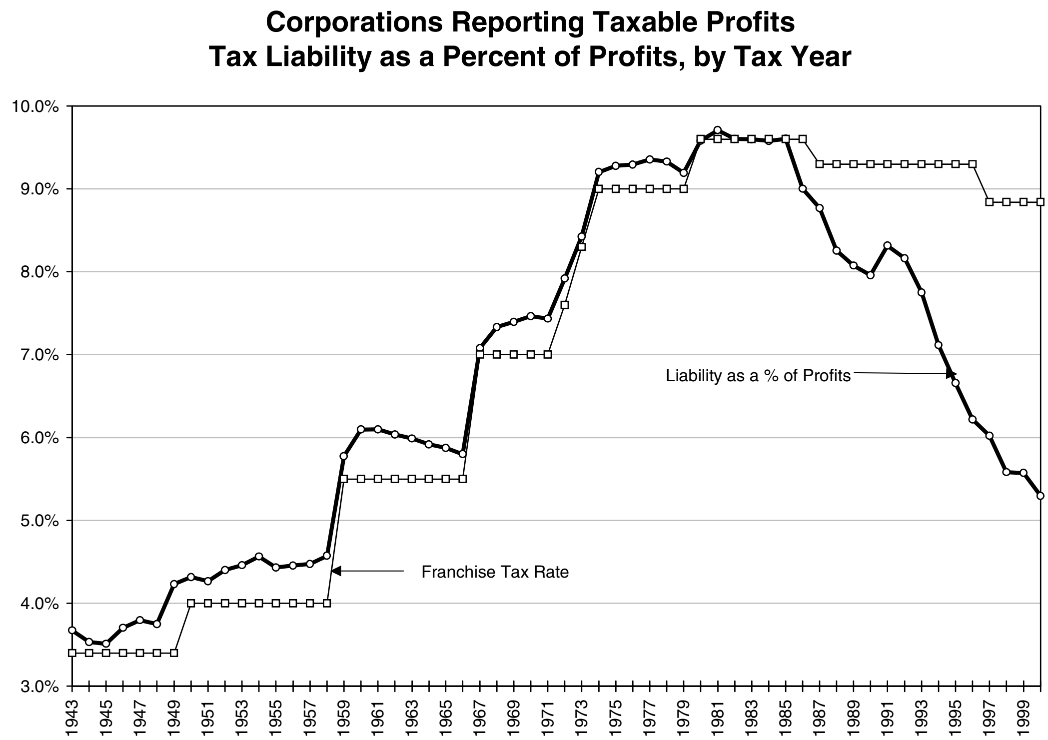
Corporation tax revenues are expected to contribute 9.2 percent of all General Fund revenues in 2003-04. These revenues are derived from five taxes:

- The franchise tax and the corporate income tax are levied at an 8.84 percent rate on profits. The former is imposed on corporations for the privilege of doing business in California, while the latter is imposed on corporations that do not do business in the state but derive income from California sources. An example of this type of out-of-state company would be a corporation that maintains a stock of goods in California from which deliveries are made to fill orders taken by independent dealers or brokers. Corporations that have a limited number of shareholders and meet other requirements to qualify for State Subchapter S status are taxed at a 1.5 percent rate rather than the 8.84 percent imposed on other corporations. (Subchapter S status provides the limited liability of corporate status combined with the tax advantages of partnerships—i.e., the S-corporation's profits and losses flow through to its shareholders and are subject to tax at the appropriate personal income tax rate.)
- Banks and other financial corporations pay an additional 2 percent tax (i.e., "bank tax") on their net income. This tax is in lieu of local personal property taxes and business license taxes, but in addition to the franchise tax.
- The alternative minimum tax is similar to that in federal law. Imposed at a rate of 6.65 percent, the alternative minimum tax ensures that high-income taxpayers do not make excessive use of deductions and exemptions to avoid paying a minimum level of tax.
- A minimum franchise tax of $800 is imposed on corporations subject to the franchise tax but not on those subject to the corporate income tax. Starting in 2000, new corporations were exempted from the prepayment of minimum tax to the Secretary of State as well as the payment of the second year's minimum franchise tax.

In forecasting the corporation tax, the relationship of California taxable profits to national corporate profits is important. The forecast also involves analysis of the trend in California's non-farm employment level, California's unemployment rate relative to that of the nation's, as well as recent actual cash experience for this tax.

In recent years, S-corporation activity and use of credits (largely the research and development credit and the manufacturers' investment credit) were the primary factors contributing to a divergence between profit and liability growth. This diverging trend between profits and liabilities can be seen in Figure REV-15. The election of S-corporation status results in a reduced corporate rate, with the income and tax liability on that income shifted to the personal income tax. S-corporations accounted for 28.8 percent of total taxable profits in 2000, whereas in 1991, their share was only 14.7 percent.

FIGURE REV-15



Consistent with the economic outlook and reflecting a substantial decline of corporation tax revenues in 2001-02, corporation tax revenues are expected to increase by 21.0 percent in 2002-03 before decreasing by 1.4 percent in 2003-04. This estimate includes the fiscal effect of legislation enacted in 2002, including a two-year suspension of net operating loss provisions and conformity with federal law regarding accounting for banks bad debt reserves (Chapter 488, Statutes of 2002). The estimate also includes the revenue proposals mentioned above pertaining to bank mutual funds and clarifying the definition of a manufacturing entity for the purpose of claiming the manufacturers' investment credit.

Corporation revenues forecasted for 2002-03 and 2003-04, as compared with preliminary 2001-02 collections, are as follows:

Corporation Tax Revenue

(Dollars in millions)

2001-02 (Preliminary)	$5,333
2002-03 (Forecast)	6,452
2003-04 (Forecast)	6,361

Insurance Tax: $1.830 billion

The majority of insurance written in California is subject to a 2.35 percent gross premiums tax. This premium tax takes the place of all other State and local taxes except those on real property and motor vehicles. The basis of the tax is the amount of "gross premiums" received, less return premiums, upon business done in California.

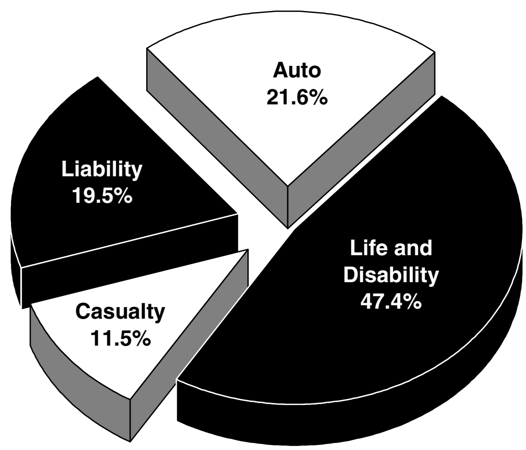
There are some exceptions. Insurers transacting title insurance are taxed upon all income received in this state, with the exceptions of interest, dividends, rents from real property, profits from the sale or disposition of investments, and income arising out of investments. Ocean marine insurers are taxed upon underwriting profits at a 5 percent rate. Other exceptions to the 2.35 percent rate include certain pension and profit-sharing plans, including qualified annuities, which are taxed at a lower rate of 0.5 percent, and certain specialized lines of insurance that are taxed at 3 percent.

The Department of Finance conducts an annual survey to project insurance premium growth. Responses were received this year from over 300 insurance companies, which represent approximately 65 percent of the insurance written in California.

Figure REV-16 illustrates the proportion of premiums written by insurance type from which the revenue is derived. For 2001, $81.1 billion in taxable premiums written were reported, an increase of 25.5 percent over 2000. The most recent survey indicates that premiums written will increase by 9.1 percent in 2002 and by 5.5 percent in 2003. Due to factors such as tax deferrals, averaging, and various applied tax rates, revenues grow at different rates than premiums written. On a calendar year basis, revenues are expected to grow by 10.9 percent in 2002 and by 5.9 percent in 2003 based on survey responses.

Figure Rev-16

Insurance Premiums by Category in 2001



Increases in the cost of medical care and commercial repairs, as well as uncertainty regarding coverage for potential terrorist attacks, have contributed to premium growth for property and casualty insurance. Homeowners have also experienced increased rates for property coverage due to such things as water and mold related claims. Life insurers reported strong growth due to their 2001 annuity business that amounted to $17.9 billion in taxable premiums written, an increase of 171 percent over 2000.

Insurance premium tax revenues forecasted for 2002-03 and 2003-04, as compared with preliminary 2001-02 collections, are as follows:

Insurance Tax Revenue

(Dollars in millions)

2001-02 (Preliminary)	$1,596
2002-03 (Forecast)	1,742
2003-04 (Forecast)	1,830

Estate/Inheritance/Gift Taxes: $404.2 million

Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead, an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The pick-up tax is computed on the basis of the federal "taxable estate," with tax rates that range from 0.8 percent to 16 percent. This tax does not increase the liability of the estate due to the fact that it would otherwise be paid to the federal government.

The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduced the state pick-up tax by 25 percent in 2002, 50 percent in 2003, and 75 percent in 2004, and eliminates it beginning in 2005. Revenues received will decline by approximately $387 million in 2002-03, $762 million in 2003-04, and $1.1 billion in 2004-05 due to these changes in federal law. The provisions of this federal Act sunset after 2010; at that time, the federal estate tax will be reinstated along with the State's estate tax, unless future federal legislation is enacted to make the provisions permanent.

Revenues forecasted for 2002-03 and 2003-04, as compared with preliminary 2001-02 collections, are as follows:

Estate, Inheritance, and Gift Tax Revenue

(Dollars in millions)

2001-02 (Preliminary)	$890.6
2002-03 (Forecast)	646.3
2003-04 (Forecast)	404.2

Alcoholic Beverage Taxes: $292 million

Taxes on alcoholic beverages are levied on the sale of beer, wine, and distilled spirits. The rates vary with the type of alcoholic beverage. The tax rate per gallon for beer, dry wine, and sweet wine is $0.20. The tax rates per gallon for sparkling wine and distilled spirits are $0.30 and $3.30, respectively.

Alcoholic beverage revenue estimates are based on projections of total and per capita consumption for each type of beverage. Overall, consumption of alcoholic beverages is expected to remain relatively flat over the forecast period.

Revenues forecasted for 2002-03 and 2003-04, as compared with preliminary 2001-02 collections, are shown in Figure REV-17.

Cigarette Tax: $101.0 million

Proposition 10 increased the excise tax imposed on distributors selling cigarettes in California to 87 cents per pack effective January 1, 1999. At the same time, this proposition imposed a new excise tax on cigars, chewing tobacco, pipe tobacco, and snuff at a rate equivalent to the tax increase on cigarettes of 50 cents per pack. In addition, the higher excise tax on cigarettes automatically triggered an additional increase in the tax on other tobacco products effective July 1, 1999, with the proceeds allocated to the Cigarette and Tobacco Products Surtax Fund. Thus, this proposition increased the total excise tax on other tobacco products by an amount equivalent to an increase in the cigarette tax of one dollar per pack.

The State excise tax on cigarettes of 87 cents per pack is allocated as follows:

- Fifty cents of the per-pack tax on cigarettes, and the equivalent rate levied on non-cigarette tobacco products, goes to the California Children and Families First Trust Fund for distribution as specified in Proposition 10.
- Twenty-five cents of the per-pack tax on cigarettes, and the equivalent rates levied on non-cigarette tobacco products, is allocated to the Cigarette and Tobacco Products Surtax Fund for distribution as determined by Proposition 99 of 1988.
- Ten cents of the per-pack tax is allocated to the State's General Fund.
- The remaining two cents of the per-pack tax is deposited into the Breast Cancer Fund.

Projections of total and per capita consumption of cigarettes provide the basis for the cigarette tax estimate. The cumulative effect of product price increases, the increasingly restrictive environments for smokers, and State anti-smoking campaigns funded by Proposition 99 revenues and revenues from the Master Tobacco Settlement have all significantly reduced cigarette consumption.

Figure Rev-17

Beer, Wine, and Distilled Spirits Revenue
(Dollars in Millions)

	2001-02 Preliminary	2002-03 Forecast	2003-04 Forecast
Beer and Wine	$152.3	$151.0	$152.0
Distilled Spirits	140.3	140.0	140.0
Total	**$292.6**	**$291.0**	**$292.0**

Per capita consumption declined on average 3.5 percent annually from 1983-84 through 1987-88, and then decreased even more rapidly with the onset of Proposition 99. During 1989-90, per capita consumption was about 123 packs versus 85 packs in 1997-98—a 31 percent decrease over eight years. Price increases stemming from tobacco litigation—in conjunction with the State's excise tax hike—further reduced per capita consumption by approximately 31 percent over the last four years to 59 packs in 2001-02. The long-term downward trend in taxable consumption should continue to reduce cigarette sales in the range of 3.5 percent annually.

Wholesale price data provide the basis for the revenue estimate for other tobacco products, which include items such as cigars, chewing tobacco, and snuff. For 2001-02 other tobacco products contributed 4.7 percent to the total tobacco revenues. Historically, these taxes have generally contributed less than 5 percent to the total of all the tobacco revenues collected on an annual basis. Based on recent consumption patterns, the long-term use of other tobacco products is expected to decrease at a rate similar to cigarettes.

FIGURE REV-18

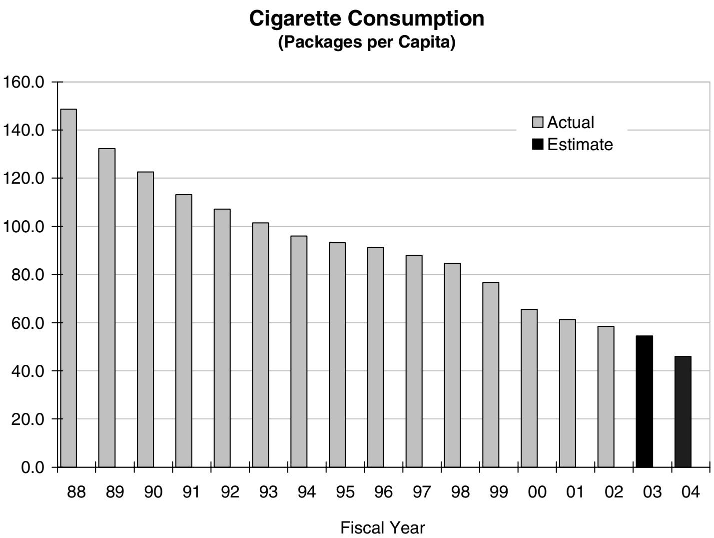


FIGURE REV-19

Tobacco Tax Revenue
(Dollars in Millions)

	2001-02 Preliminary	2002-03 Forecast	2003-04 Forecast
General Fund	$121.6	$117.7	$101.0
Cigarette and Tobacco Products Surtax Fund	332.3	322.0	279.0
Breast Cancer Fund	24.3	23.5	20.2
California Children and Families First Trust Fund	624.6	605.0	522.0
Realignment revenue	0.0	0.0	1,170.0
Total	$1,102.8	$1,068.2	$2,092.2

Per capita consumption of cigarette packs from 1987-88 through 2003-04 is illustrated in Figure REV-18. Total tobacco tax revenues forecasted for 2002-03 and 2003-04, as compared with preliminary 2001-02 collections, are shown in Figure REV-19.

As noted in the Preserving Critical Programs section, one of the revenue proposals in the Governor's Budget to fund programs that are proposed to be shifted to local governments is to increase the tobacco excise tax by $1.10 per pack of cigarettes. The tobacco tax portion of realignment is expected to provide $1.17 billion in revenues to local governments in 2003-04. This proposal will further increase the tax on other tobacco products at a rate equivalent to the tax increase on cigarettes of $1.10 per pack effective July 1, 2004, with the proceeds going to the Cigarette and Tobacco Products Surtax Fund.

Special Fund Revenue

The California Constitution, codes, and statutes specify the uses of certain revenues, with receipts accounted for in various special funds. In general, special fund revenues consist of three categories of income:

- Receipts from tax levies that are allocated to specified functions, such as motor vehicle taxes and fees.
- Charges for special services provided for specific functions, including such items as business and professional license fees.
- Rental royalties and other receipts designated for particular purposes—for example, oil and gas royalties.

Taxes and fees related to motor vehicles comprise about 28 percent of all special fund revenue. Principal sources are motor vehicle fees (registration, weight, and vehicle license fees) and motor vehicle fuel taxes. During 2003-04, $7.6 billion in revenues will be derived from the ownership or operation of motor vehicles, a 6.0 percent increase from the 2002-03 level. Over 40 percent of all taxes and fees collected on motor vehicles will be returned to local governments. The remaining portion is available for various State programs related to transportation and services to vehicle owners.

Chapter 85, Statutes of 1991, created the Local Revenue Fund for the purpose of State-local program realignment. Revenue attributable to a 0.5 percent sales tax rate is transferred to this special fund. During 2003-04, local governments are expected to receive $2.3 billion from this revenue source, up 5.1 percent from 2002-03. In addition to this revenue, approximately 24 percent of all vehicle license fees (including amounts backfilled by the General Fund) are transferred to the Local Revenue Fund. As noted previously, several revenue proposals are included in this Budget to fund programs that are proposed to be shifted to local governments. These proposals will provide $8.2 billion in new revenue to local governments in 2003-04.

Proposition 10 tobacco-related taxes are collected to primarily support early childhood development programs as specified. These proceeds are deposited to the California Children and Families First Trust Fund, and are estimated at $605 million in 2002-03 and $522 million in 2003-04. Funds from the Proposition 99 tobacco-related taxes are allocated to a special fund for distribution to a variety of accounts as determined by the measure. Receipts for this fund are estimated at $322 million in 2002-03 and $279 million in 2003-04. An additional $23.5 million for breast cancer research will be generated in 2002-03 by the 2 cents per pack cigarette tax enacted in 1993, while $20.2 million will be generated in 2003-04 for this purpose. The original 10 cents per pack tax on cigarettes is allocated to the General Fund. Decreased tobacco consumption due to the $1.10 per pack excise tax increase that is proposed in the Governor's Budget for realignment is expected to reduce special fund tobacco revenues. However, the special funds will be held harmless through a backfill of funding from the new revenues.

Motor Vehicle Fees: $4.22 billion—Motor vehicle fees consist of vehicle license, registration, weight, and driver's license fees, and various other charges related to vehicle operation. This amount includes the additional revenues due to proposed increases in certain fees, fines, and penalties, which are discussed under the Department of Motor Vehicles in the Business, Transportation, and Housing section.

The vehicle license fee (VLF) is imposed for the privilege of operating a vehicle on public highways in California. This tax is imposed in lieu of a local personal property tax on automobiles and is administered by the Department of Motor Vehicles. All of the revenues from this tax, other than administrative costs and fees on trailer coaches and mobile homes, are constitutionally dedicated to local governments.

The VLF is calculated on the vehicle's "market value," which is the cost to the purchaser exclusive of sales tax, adjusted by a depreciation schedule. For motor vehicles, the schedule is based on an 11-year depreciation period; an 18-year depreciation period is used for trailer coaches. A 2 percent rate is applied to the depreciated value to determine the fee. Thus, revenue from this source is contingent on the number of vehicles in California, the ages of those vehicles, and their most recent sales prices.

As part of the State-local program realignment, Chapter 87, Statutes of 1991, revised the vehicle license fee depreciation schedule and required the Department of Motor

Vehicles to reclassify used vehicles based upon their actual purchase price each time the ownership of the vehicle is transferred. All of the revenue from this base change is transferred to local governments.

Chapter 322, Statutes of 1998, established a program to offset a portion of the vehicle license fees paid by vehicle owners. This program is referred to as an "offset" rather than a tax credit, because the total amount of VLF legally due from the taxpayer was not changed. Instead, the State paid or "offset" a portion of the amount due, and taxpayers paid the remaining balance. Beginning January 1, 1999, a permanent offset of 25 percent of the amount of the VLF owed became operative. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapters 106 and 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent offset through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which was returned to taxpayers in the form of a rebate. Beginning on July 1, 2001, the VLF was permanently reduced by 67.5 percent.

This offset is expected to provide tax relief of $3.850 billion in 2002-03 and $3.916 billion in 2003-04. Since 1999, the General Fund has backfilled the offset so that the tax relief did not result in a revenue loss to local governments. As the amount paid by taxpayers has decreased due to increased tax relief, the amount backfilled by the General Fund has increased. However, in order to continue funding vital State programs in spite of a substantial reduction in State revenues, the General Fund will only be able to continue funding those backfill amounts related to realignment and debt repayment in Orange County. This action is expected to reduce General Fund expenditures by $1.26 billion in 2002-03, and $2.93 billion in 2003-04, and result in a commensurate decrease in revenues to local governments. Vehicle owners will continue to pay the reduced VLF amount.

As part of the implementation of the vehicle license fee rebate program, a Special Reserve Fund for Vehicle License Fee Tax Relief was created. As noted above, this rebate program was replaced with a General Fund offset beginning in 2001-02. Only a modest portion of the $33 million balance in this Special Reserve Fund is estimated to be needed for rebates attributable to late filers in future years. As a result, the Administration proposes legislation to eliminate this Special Reserve Fund and transfer its balance to the General Fund. This shift of resources will have no effect on the vehicle license fee tax relief program or local governments, and rebates that may result from late filers in the future will be funded from the General Fund instead.

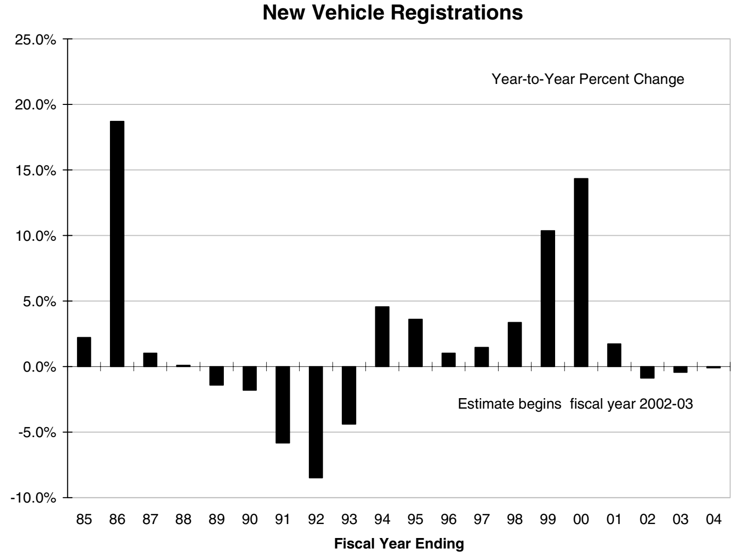
The Department of Motor Vehicles administers the VLF for trailer coaches that are not installed on permanent foundations. Those that are installed on permanent foundations (mobile homes) are subject to either local property taxes or the VLF. Generally, mobile homes purchased new prior to July 1, 1980, are subject to the VLF, which in this instance is administered by the Department of Housing and Community Development rather than the Department of Motor Vehicles. All other mobile homes are subject to the local property tax. Chapter 699, Statutes of 1992, provided that all trailer coach license fees that are administered by the Department of Motor Vehicles be deposited in the General Fund. Beginning in 1994-95, all other trailer coach license fees are also deposited in the General Fund.

Chapter 861, Statutes of 2000, replaced the current weight fee schedule for commercial trucks, which was based on unladen weight, with a gross vehicle weight schedule. This change was necessary to conform to the federal International Registration Plan by January 1, 2002. While Chapter 861 was intended to be revenue neutral, the new fee schedule has resulted in a substantial reduction in weight fee revenues. In order to address the revenue shortfall, the Administration proposes that legislation be introduced in the 2003-04 First Extraordinary Session to adjust the fee schedule to achieve revenue neutrality and improve enforcement.

Chapter 861 also provided that the vehicle license fee will no longer be charged on commercial trailers, and the loss in revenue to local governments from that exclusion will be backfilled by the General Fund. In order to address the current General Fund revenue shortfall, the Administration proposes that legislation be introduced in the 2003-04 First Extraordinary Session to eliminate the non-realignment portion of this backfill.

Allowing for scrappage and for vehicles entering and leaving California, the total number of fee-paid registrations, (autos, trucks, trailers, and motorcycles) including multi-state vehicles, is estimated at 28,354,000 for 2002-03 and 28,727,000 for 2003-04, a 1.3 percent increase. As can be seen in Figure REV-20, the 14.4 percent growth in new vehicle registrations in 1999-00 was at a 14-year high. This dramatic growth was due to extremely strong

Figure Rev-20



vehicle sales at that time. Vehicle sales have declined from these record highs and further declines are expected in 2002-03 and 2003-04. Although new vehicle sales have been stronger than anticipated given the economic downturn, this is probably a temporary increase caused by incentives that accelerated sales that would have taken place throughout subsequent fiscal years. Because of the economic slowdown, the forecast for new vehicle registrations assumes a 0.4 percent decline in 2002-03 with a 0.1 percent decline in 2003-04.

Motor vehicle fees revenue is summarized in Figure REV-21.

Motor Vehicle Fuel Taxes: $3.329 billion—The motor vehicle fuel tax (levied on gasoline), diesel fuel tax (levied on diesel), and the use fuel tax (levied on alternative fuels such as liquefied petroleum gas, natural gas, and alcohol fuel) provide the major sources of funds for maintaining, replacing, and constructing State highway and transportation facilities. Just over one-third of these revenues is apportioned to local jurisdictions for street and highway use.

The motor vehicle fuel tax (gas tax) is collected from distributors at the terminal rack level (i.e., the point at which fuel is loaded into ground transportation). Motor vehicle fuel is taxed at a rate of 18 cents per gallon. Fuels subject to the gas tax include gasoline, natural gasoline, and specified blends of gasoline and alcohol sold for vehicular use on California public streets and highways.

FIGURE REV-21

Motor Vehicle Fees Revenue
(Dollars in Thousands)

	2001-02 Actual	2002-03 Forecast	2003-04 Forecast
Vehicle License Fees [1/]	$1,444,563	$1,405,135	$1,429,288
Realignment [1/]	485,193	465,022	472,788
Registration, Weight, and Other Fees	1,891,776	1,954,820	2,324,513
Total	**$3,821,532**	**$3,824,977**	**$4,226,589**

[1/] Reflects 67.5 percent offset level beginning in 2001.

The Motor Vehicle Fuel Tax Law also applies an excise tax of 2 cents per gallon on aircraft jet fuel sold at the retail level. Certain sales are exempt from the aircraft jet fuel tax, including those to certified air common carriers, aircraft manufacturers and repairers, and the U.S. armed forces.

Chapter 912, Statutes of 1994, established the Diesel Fuel Tax Law. Prior to the operative date of Chapter 912, diesel fuel had been taxed under the Use Fuel Tax Law. The diesel fuel tax is collected from distributors at the terminal rack level and applies to diesel fuel and blended diesel fuel sold for use in propelling highway vehicles. Undyed diesel fuel for highway use is taxed at a rate of 18 cents per gallon. Dyed diesel fuel, which is destined for tax-exempt uses, is not taxed.

Chapter 1053, Statutes of 2000, required that the State excise tax on gasoline be collected at the terminal rack level, rather than at the level at which the fuel changes ownership. Standardizing the point of collection conforms to federal law and is expected to increase compliance.

The use fuel tax is levied on sales of kerosene, liquefied petroleum gas (LPG), liquid natural gas (LNG), compressed natural gas (CNG), and alcohol fuel (ethanol and methanol containing 15 percent or less gasoline and diesel fuel). These fuels remain untaxed until they are dispensed into a motor vehicle that is operated on California highways or is suitable for highway operation. Current use fuel tax rates are 18 cents per gallon for kerosene, 6 cents per gallon for LPG and LNG, 7 cents per 100 cubic feet for CNG, and 9 cents per gallon for alcohol fuel. Users of LPG, LNG, or CNG may elect to pay a flat rate of tax based on vehicle weight in lieu of the 6 cents per gallon tax.

The Mills-Hayes Act specifies that a fuel tax rate of 1 cent per gallon be levied on fuel used by local transit systems, school and community college districts, and certain common carriers. This excise tax is imposed in lieu of the other fuel taxes described above. Gasoline consumption has grown slowly over time, as conservation efforts have offset economic growth. Gasoline consumption rose 1.8 percent during 2001-02, and is estimated to increase by 2.9 percent in 2002-03 before dropping to 0.7 percent in 2003-04. The long-term growth rate for gas consumption is approximately 1.6 percent.

Because the majority of diesel fuel is consumed by the commercial trucking industry, consumption is affected most significantly by general economic conditions. Diesel fuel consumption increased by 4.9 percent in 2001-02, and is expected to drop to 0.7 percent in 2002-03 and 1.2 percent in 2003-04. These slower growth rates in 2002-03 and 2003-04 are a result of both the increase in fuel prices and a moderation of economic activity.

Proposition 111, enacted in June 1990 to generate new transportation funding, increased gasoline and diesel fuel tax rates by 5 cents per gallon each, effective August 1, 1990. Proposition 111 also increased gas and diesel fuel tax rates by an additional 1 cent per gallon each January 1 thereafter, until an 18-cent-per-gallon rate became effective January 1, 1994. The rates have remained constant since that time. Revenues raised by Proposition 111 equaled $1.60 billion during 2001-02, and are expected to be $1.61 billion and $1.62 billion during 2002-03 and 2003-04, respectively.

Motor vehicle fuel revenues are shown in Figure REV-22.

Figure Rev-22

Motor Vehicle Fuel Tax Revenue
(Dollars in Thousands)

	2001-02 Actual	2002-03 Forecast	2003-04 Forecast
Gasoline [1/]	$2,825,725	$2,816,302	$2,835,388
Diesel	467,879	488,376	494,023
Total	**$3,293,604**	**$3,304,678**	**$3,329,411**

[1/] Does not include jet fuel.

FIGURE REV-23

Summary of State Tax Collections

(Excludes Departmental, Interest, and Miscellaneous Revenue)

	Per Capita Personal Income [1/2]	State Tax Collections (Dollars in Millions) General Fund	Total	Taxes per Capita [1] General Fund	Total	Taxes per $100 of Personal Income [3] General Fund	Total
1967-68	$3,878	$3,558	$4,676	$185.55	$243.86	$4.78	$6.29
1968-69	4,199	3,963	5,173	203.94	266.21	4.86	6.34
1969-70	4,532	4,126	5,409	208.96	273.94	4.61	6.04
1970-71	4,812	4,290	5,598	214.08	279.36	4.45	5.81
1971-72	5,034	5,213	6,597	256.22	324.24	5.09	6.44
1972-73	5,451	5,758	7,231	279.72	351.28	5.13	6.44
1973-74	5,947	6,377	7,877	305.57	377.45	5.14	6.35
1974-75	6,552	8,043	9,572	379.85	452.06	5.80	6.90
1975-76	7,091	9,050	10,680	420.19	495.87	5.93	6.99
1976-77	7,814	10,781	12,525	491.48	570.98	6.29	7.31
1977-78	8,569	12,951	14,825	579.41	663.25	6.76	7.74
1978-79	9,620	14,188	16,201	621.30	709.45	6.46	7.38
1979-80	10,845	16,904	19,057	726.83	819.41	6.70	7.56
1980-81	12,038	17,808	20,000	748.80	840.97	6.22	6.99
1981-82	13,209	19,053	21,501	784.78	885.62	5.94	6.70
1982-83	13,782	19,567	22,359	788.83	901.39	5.72	6.54
1983-84	14,505	22,300	25,674	880.14	1,013.30	6.07	6.99
1984-85	15,944	25,515	29,039	988.34	1,124.85	6.20	7.05
1985-86	16,934	26,974	30,898	1,021.63	1,170.25	6.03	6.91
1986-87	17,661	31,331	35,368	1,158.18	1,307.41	6.56	7.40
1987-88	18,665	31,228	35,611	1,126.67	1,284.81	6.04	6.88
1988-89	19,763	35,647	40,613	1,255.49	1,430.39	6.35	7.24
1989-90	20,819	37,248	43,052	1,278.16	1,477.32	6.14	7.10
1990-91	21,978	36,828	43,556	1,234.66	1,460.22	5.62	6.64
1991-92	21,992	40,072	48,856	1,315.63	1,604.02	5.98	7.29
1992-93	22,641	39,197	48,230	1,264.95	1,556.46	5.59	6.87
1993-94	22,805	38,351	48,941	1,224.73	1,562.93	5.37	6.85
1994-95	23,320	41,099	50,648	1,303.77	1,606.71	5.59	6.89
1995-96	24,328	44,825	54,805	1,413.54	1,728.24	5.81	7.10
1996-97	25,418	47,955	58,400	1,500.37	1,827.15	5.90	7.19
1997-98	26,549	53,859	64,826	1,659.66	1,997.63	6.25	7.52
1998-99	28,350	58,199	69,724	1,771.02	2,121.72	6.25	7.48
1999-00	29,844	70,027	81,773	2,095.53	2,447.03	7.02	8.20
2000-01	32,165	75,668	88,147	2,223.15	2,589.79	6.91	8.05
2001-02 [p]	32,120	62,654	73,270	1,805.69	2,111.64	5.62	6.57
2002-03 [e]	31,760	64,498	75,020	1,827.06	2,125.12	5.75	6.69
2003-04 [e]	32,673	65,830	85,103	1,834.97	2,372.19	5.62	7.26

[1] Per capita computations are based on July 1 populations estimates, benchmarked to the 1990 Census.

[2] Personal income data are on a calendar year basis (e.g., 2001 for 2001-02).

[3] Taxes per $100 personal income computed using calendar year personal income (e.g. 2001 income related to 2001-02 tax collections).

[p] Preliminary.

[e] Estimated.

Figure Rev-24

Outline of State Tax System as of January 1, 2003

Major Taxes and Fees	Base or Measure	Rate	Administering Agency	Fund
Alcoholic Beverage Excise Taxes:				
Beer	Gallon	$0.20	Equalization[1]	General
Distilled Spirits	Gallon	$3.30	Equalization	General
Dry Wine	Gallon	$0.20	Equalization	General
Sweet Wine	Gallon	$0.20	Equalization	General
Sparkling Wine	Gallon	$0.30	Equalization	General
Hard Cider	Gallon	$0.20	Equalization	General
Corporation:				
General Corporation	Net income	8.84% [2]	Franchise[3]	General
Bank and Financial Corp.	Net income	10.84%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Incom	6.65% [2]	Franchise	General
Tobacco:				
Cigarette	Package	$0.87 [4]	Equalization	Cigarette Tax, Cigarette and Tobacco Products Surtax, Breast Cancer Act, and Calif. Children and Families First Trust Fund.
Other Tobacco Products	Wholesale price	48.89% [5]	Equalization	Cigarette and Tobacco Products Surtax California Children and Families First Trust Fund
Energy Resources Surcharge	Kilowatt hours	$0.0002	Equalization	Energy Resources Surcharge Fund
Horse Racing License	Amount wagered	0.4% - 2.0%	Horse Racing Board	Fair & Expo[6], Satellite Wagering[7], Wildlife Restoration, and General
Estate	Taxable Federal estate	0.8-16.0%	Controller[8]	General
Insurance	Gross Premiums	2.35% [9]	Insurance Dept.	General
Liquor license fees	Type of license	Various	Alcoholic Beverage Contro	General
Motor Vehicle:				
Vehicle License Fees (VLF)	Market value	2.0% [10]	Motor Vehicle Dept	Motor Vehicle License Fee and Local Revenue[11]
Fuel—Gasoline	Gallon	$0.18	Equalization	Motor Vehicle Fuel[12]
Fuel—Diesel	Gallon	$0.18	Equalization	Motor Vehicle Fuel
Registration Fees	Vehicle	$30.00	Motor Vehicle Dept	Motor Vehicle[13]
Weight Fees	Gross Vehicle Weight	Various	Motor Vehicle Dept	State Highway[14]
Personal Income	Taxable income	1.0-9.3%	Franchise	General
Alternative Minimum Tax	Alternative Taxable Incom	7.0%	Franchise	General
Private Railroad Car	Valuation	[15]	Equalization	General
Retail Sales and Use	Receipts from sales or lease of taxable items	5.50% [16]	Equalization	General and Local Revenue

Source: State of California, Department of Finance

1 State Board of Equalization.
2 Minimum tax $800 per year for existing corporations. New corporations are exempted from the minimum franchise tax for the first two years of operations.
3 Franchise Tax Board.
4 This tax is levied at the combined rate of 10 cents per pack of 20 cigarettes for the General Fund, 25 cents per pack for the Cigarette and Tobacco Products Surtax, 2 cents per pack for the Breast Cancer Act, and 50 cents per pack for the California Children and Families First Trust Fund.
5 A tax equivalent to the tax on cigarettes; rate reflects the 50 cents per pack established by the California Children and Families First Initiative.
6 For support of county fairs and other activities.
7 For construction of Satellite Wagering Facilities and health and safety repairs at fair sites.
8 State Controller's Office
9 Ocean marine insurance is taxed at the rate of 5 percent of underwriting profit attributable to California business. Special rates also apply to certain pension and profit sharing plans, surplus lines, and nonadmitted insurance.
10 Beginning January 1, 1999, vehicle owners pay only 75 percent of the calculated tax, and the remaining 25 percent (offset percentage) is paid by the General Fund. Chapter 74, Statutes of 1999, increased the offset to 35 percent on a one-time basis for the 2000 calendar year. Chapter 107, Statutes of 2000, and Chapter 5, Statutes of 2001, extended the 35 percent credit through June 30, 2001, and provided for an additional 32.5 percent VLF reduction, which will be returned to taxpayers in the form of a rebate. Beginning July 1, 2001, the VLF will be permanently reduced by 67.5 percent.
11 For return to cities and counties. Trailer coach license fees are deposited in the General Fund.
12 For administrative expenses and apportionment to State, counties and cities for highways, airports and small craft harbors.
13 For support of State Department of Motor Vehicles, California Highway Patrol, other agencies and motor vehicle related programs.
14 For State highways and State Department of Motor Vehicles administrative expense. Chapter 861, Statutes of 2000, replaces the current weight fee schedule for trucks, which is based on the unladen weight of commercial trucks and trailers, with a new schedule based on the gross weight capacity of trucks alone, in order to comply with the International Registration Plan standards.
15 Average property tax rate in the State during preceding year.
16 Includes a 5.00 percent rate for the State General Fund and Public Transportation Account and a 0.50 percent rate to the Local Revenue Fund for realignment.

FIGURE REV-25

Comparative Yield of State Taxes, 1970-71 through 2003-04
Includes both General and Special Funds
(Dollars in Thousands)

Year Ending June 30	Sales and Use (a)	Personal Income (b)	Corporation (c)	Tobacco (d)	Estate Inheritance and Gift (e)	Insurance (f)	Alcoholic Beverage (g)	Horse Racing (h)	Motor Vehicle Fuel (i)	Vehicle Fees (j)
1971	$1,808,052	$1,264,383	$532,091	$239,721	$185,699	$158,423	$106,556	$64,601	$674,635	$513,202
1972	2,015,993	1,785,618	662,522	247,424	220,192	170,179	112,091	69,380	712,426	547,845
1973	2,198,523	1,884,058	866,117	253,602	260,119	179,674	114,884	72,693	746,196	596,922
1974	2,675,738	1,829,385	1,057,191	258,921	231,934	201,697	119,312	78,289	742,702	644,448
1975	3,376,078	2,579,676	1,253,673	261,975	242,627	202,991	120,749	86,637	752,234	664,453
1976	3,742,524	3,086,611	1,286,515	268,610	316,648	241,224	125,313	96,117	766,555	749,936
1977	4,314,201	3,761,356	1,641,500	269,384	367,964	322,476	127,485	102,702	810,321	807,782
1978	5,030,438	4,667,887	2,082,208	273,658	365,092	387,560	132,060	111,591	850,181	924,410
1979	5,780,919	4,761,571	2,381,223	268,816	416,955	420,184	140,059	112,856	896,591	1,021,856
1980	6,623,521	6,506,015	2,510,039	290,043	465,611	446,228	138,940	127,002	852,752	1,096,640
1981	7,131,429	6,628,694	2,730,624	278,161	530,185	460,926	142,860	129,779	839,994	1,127,293
1982	7,689,023	7,483,007	2,648,735	276,824	482,300	454,984	139,523	119,626	833,446	1,373,354
1983	7,795,488	7,701,099	2,536,011	271,621	517,875	736,929	136,209	120,159	928,633	1,614,993
1984	8,797,865	9,290,279	3,231,281	263,231	236,452	457,490	137,433	141,001	1,213,167	1,906,290
1985	9,797,564	10,807,706	3,664,593	262,868	296,805	643,139	135,786	133,814	1,159,637	2,137,326
1986	10,317,930	11,413,040	3,843,024	258,141	252,810	839,939	132,262	131,592	1,194,172	2,515,295
1987	10,904,022	13,924,527	4,800,843	255,076	273,089	1,008,804	131,288	131,733	1,245,881	2,692,835
1988	11,650,531	12,950,346	4,776,388	250,572	304,148	1,158,321	128,734	132,208	1,293,254	2,966,334
1989	12,650,893	15,889,179	5,138,009	559,617	335,091	1,317,630	128,264	143,379	1,320,512	3,142,484
1990	13,917,771	16,906,568	4,965,389	787,076	388,527	1,167,684	128,524	147,920	1,349,146	3,305,711
1991	13,839,573	16,852,079	4,544,783	745,074	498,774	1,287,152	129,640	148,279	1,999,771	3,513,159
1992	17,458,521	17,242,816	4,538,451	726,064	446,696	1,167,307	321,352	130,042	2,457,229	4,369,862
1993	16,598,863	17,358,751	4,659,950	677,846	458,433	1,188,181	292,107	114,037	2,412,574	4,470,321
1994	16,857,369	17,402,976	4,809,273	664,322	552,139	1,196,921	275,797	118,215	2,547,633	4,518,795
1995	16,273,800	18,608,181	5,685,618	674,727	595,238	998,868	268,957	108,974	2,685,731	4,749,594
1996	17,466,584	20,877,687	5,862,420	666,779	659,338	1,131,737	269,227	106,057	2,757,289	5,009,319
1997	18,424,355	23,275,990	5,788,414	665,415	599,255	1,199,554	271,065	90,627	2,824,589	5,260,355
1998	19,548,574	27,927,940	5,836,881	644,297	780,197	1,221,285	270,947	81,930	2,853,846	5,660,574
1999	21,013,674	30,894,865	5,724,237	976,513	890,489	1,253,972	273,112	61,185	3,025,226	5,610,374
2000	23,451,570	39,578,237	6,638,898	1,216,651	928,146	1,299,777	282,166	44,130	3,069,694	5,263,245
2001	24,287,928	44,618,532	6,899,322	1,150,869	934,709	1,496,556	288,450	42,360	3,142,142	5,286,542
2002	23,816,406	33,046,665	5,333,036	1,102,807	890,627	1,596,000	292,627	44,622	3,295,903	3,836,904
2003 *	24,732,249	32,880,000	6,452,011	1,068,200	646,300	1,742,150	291,000	44,455	3,307,008	3,841,602
2004 *	30,297,402	36,190,000	6,361,011	2,092,200	404,200	1,830,150	292,000	44,985	3,331,741	4,244,514

(a) The Budget proposes to increase the sales tax rate by 1 cent in 2003-04 for State-Local Program Realignment.
(b) The Budget proposes to add higher tax brackets in 2003-04 for State-Local Program Realignment.
(c) Includes the corporation income tax and, from 1989 through 1997, the unitary election fee.
(d) Proposition 99 (November 1988) increased the cigarette tax to $0.35 per pack and added an equivalent tax to other tobacco products.
The Breast Cancer Act added $0.02 per pack effective 1/1/94.
Proposition 10 (November 1998) increased the cigarette tax to $0.87 per pack and added the equivalent of $1.00 tax to other tobacco products.
The Budget proposes to increase the cigarette excise tax by $1.10 per pack for State-Local Program Realignment.
(e) Proposition 6, an initiative measure adopted by the voters in June 1982, repealed the inheritance and gift taxes and imposed instead an estate tax known as "the pick-up tax," because it is designed to pick up the maximum credit allowed against the federal estate tax. The Economic Growth and Tax Reconciliation Act of 2001 phases out the federal estate tax by 2010. As part of this, the Act reduces the State pick-up tax by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004, and eliminates it beginning in 2005.
(f) The conclusion of litigation resulted in additional revenue of $51 million in 1987-88, $178 million in 1988-89, $7 million in 1990-91, and $5 million in 1991-92. It also resulted in refunds of $46 million in 1993-94, $127 million in 1994-95, $39 million in 1995-96, $15 million in 1996-97, and $30 million in 1997-98.
(g) Alcoholic beverage excise taxes were significantly increased effective July 15, 1991.
(h) Beginning in 1988-89, includes revenues from satellite wagering that were not included in prior years.
(i) Motor vehicle fuel tax (gasoline), use fuel tax (diesel and other fuels), and jet fuel.
(j) Registration and weight fees, motor vehicle license fees, and other fees. Due to the offset program, 1998-99 vehicle license fee values reflect a 25 percent reduction for 1999. The values reflect a 35 percent reduction from January 1, 2000, through June 30, 2001, and a 67.5 percent reduction thereafter.
* Estimated. Includes the personal income tax, sales tax, and cigarette tax proposals for State-local realignment. See the section on State-Local Program Realignment for details.